



*Office of Inspector General
Export-Import Bank
of the United States*

Audit of EXIM's Approach for Determining Additionality

September 30, 2022

OIG-AR-22-07

The Export-Import Bank of the United States (EXIM or agency) is the official export credit agency of the United States (U.S.). EXIM is an independent, self-financing executive agency and a wholly-owned U.S. government corporation. EXIM's mission is to support jobs in the United States by facilitating the export of U.S. goods and services. EXIM provides competitive export financing and ensures a level playing field for U.S. exports in the global marketplace.

The Office of Inspector General (OIG), an independent office within EXIM, was statutorily created in 2002 and organized in 2007. The mission of the EXIM OIG is to conduct and supervise audits, investigations, inspections, and evaluations related to agency programs and operations; provide leadership and coordination as well as recommend policies that will promote economy, efficiency, and effectiveness in such programs and operations; and prevent and detect fraud, waste, abuse, and mismanagement.

This audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our objectives.



Office of Inspector General

To: James Cruse
Senior Vice President of Policy Analysis & International Relations

From: Jennifer Fain
Assistant Inspector General of Audits and Evaluations (Acting)

Subject: Audit of EXIM's Approach for Determining Additionality

Date: September 30, 2022

Attached is the final report on the Audit of EXIM's Approach for Determining Additionality. The objective of this audit was to assess EXIM's approach for determining the additionality of transactions in accordance with the agency's charter, policy, and procedures.

We conducted this audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

This report contains three recommendations to improve the effectiveness of EXIM's additionality determination process. We consider management's proposed actions to be responsive. The recommendations will be closed upon completion and verification of the proposed actions.

We appreciate the cooperation and courtesies provided to our office during the audit. If you have questions, please contact me at (202) 565-3439 or jennifer.fain@exim.gov or Courtney Potter at (202) 565-3976 or courtney.potter@exim.gov. You can obtain additional information about EXIM OIG and the Inspector General Act of 1978 at www.exim.gov/about/oig.

EXECUTIVE SUMMARY

Audit of EXIM's Approach for Determining Additionality
OIG-AR-22-07 September 30, 2022

Why We Did This Audit

The Office of Inspector General (OIG) received a complaint that the Export-Import Bank of the United States (EXIM) was not adhering to its additionality requirements in approving transactions for financial support. Accordingly, we conducted this audit to assess EXIM's approach for determining the additionality of transactions in accordance with its charter, policy, and procedures.

What We Recommend

To improve the additionality determination process, we recommend that EXIM: 1) update the additionality guidelines and checklist to: a) explicitly state the minimum documentation requirements for establishing additionality, whether that be source documentation or contemporaneous memos with the required elements of source, timing, and context; and b) establish a reason code for additionality for applications denied or withdrawn due to additionality requirements. EXIM should include this information in EXIM's Annual Additionality Report; 2) establish a formal policy assigning independent oversight responsibility for additionality determinations. Ensure that all transactions and supporting evidence are reviewed for consistent application of additionality policies and procedures; and 3) conduct refresher training or briefing with loan officers on revised additionality procedures and requirements.

What We Found

While EXIM has made progress in revising its additionality policies and procedures based on our prior recommendations, as well as suggestions offered by interagency partners, we found that EXIM's approach for determining additionality during the period of review lacks assurance that additionality determinations are reasonable and justified. Specifically, EXIM should strengthen internal controls over the additionality review process, as the current process does not provide sufficient support or documentation for additionality determinations, and it lacks formal oversight over the supporting evidence loan officers use to make those determinations.

Although insufficient documentation does not necessarily mean that the additionality determinations were incorrect, it may raise questions about the appropriateness of the determinations, as well as the overall effectiveness of the agency's additionality policy and procedures.

We also found that EXIM lacks a comprehensive process for tracking applications withdrawn or denied based on additionality.

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ABBREVIATIONS AND GLOSSARY

Term	Description
Additionality	EXIM defines additionality as the likelihood that an export would not go forward without EXIM support.
APS	Application Processing System
EXIM	Export-Import Bank of the United States
Board	EXIM's Board of Directors is responsible for approving all medium- and long-term transactions over \$25 million.
Board Memo	A memorandum submitted to the Board as part of the process for approving a transaction for EXIM support.
Buyer or Borrower	A foreign buyer of U.S. capital goods and/or services.
ECA	Export Credit Agency. An ECA is a governmental, quasi-governmental, or private institution that provides financing, typically insurance, guarantees, or loans, for the export of goods and services.
Loan Manual	EXIM's Loan, Guarantee and Insurance Manual, which sets forth the policies and procedures for EXIM's due diligence, structuring and transaction monitoring.
Medium-Term Transactions	EXIM defines medium-term transactions as exports of capital goods and services with a financed amount not exceeding \$10 million (excluding the exposure fee) and a repayment term of 7 years or less.
Long-Term Transactions	EXIM defines long-term transactions as exports of capital goods and services with a financed amount exceeding \$10 million (excluding the exposure fee) and a repayment term of 7 years or more.
OBAF	Office of Board Authorized Finance
OCFO	Office of Chief Financial Officer
OGC	Office of General Counsel, EXIM
OIG	Office of Inspector General, EXIM
OPAIR	Office of Policy Analysis and International Relations

INTRODUCTION

This report presents the results of our audit of the Export Import Bank of the United States' (EXIM) process for determining additionality. We received a complaint that the agency was not adhering to its additionality requirements in approving transactions for financial support. Accordingly, we conducted this audit to assess EXIM's approach for determining the additionality of transactions in accordance with its charter, policy, and procedures. This is the second review of EXIM's additionality process we conducted.¹

SCOPE AND METHODOLOGY

To accomplish the audit objective, we employed a combination of quantitative and qualitative techniques, including a review of documentation applicable to EXIM's additionality determination process. We used the non-representative selection method to select a sample of 21 medium- and long-term transactions from an audit universe of 196 transactions. The transactions were authorized during fiscal years 2020 and 2021. Because EXIM updated the additionality documentation requirements effective August 1, 2020, we excluded from testing seven transactions that were authorized prior to that date. Therefore, 14 transactions with an approximate total authorization amount of \$2.39 billion were included in our analysis (comprised of 8 guarantees, 5 insurance, and 1 loan). See Appendix B for a list of the 14 transactions reviewed.

For the selected transactions, we reviewed applicable transaction documents and related internal agency reports and correspondence. We also interviewed EXIM management and staff including personnel from the Office of Policy Analysis and International Relations (OPAIR), Office of Global Infrastructure, Office of Export Credit Insurance, Office of Trade Credit Insurance, Office of Credit Policy, Office of Board Authorized Finance Industrial Group, and the Office of the Chief Financial Officer (OCFO).

We assessed the significance of internal controls necessary to satisfy the audit objective. In particular, we identified and assessed the five internal control components (control environment, risk assessment, control activities, information and communication, and monitoring) and their underlying principles.² For more details on the audit scope and methodology, see Appendix A.

We conducted this performance audit from January 2022 through September 2022 at EXIM headquarters in Washington, D.C. The audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

¹ See EXIM OIG Report on the Evaluation of EXIM's Additionality Policy and Procedures ([OIG-EV-19-01](#), November 27, 2018).

² Standards for Internal Control in the Federal Government, GAO-14-740G (September 2014).

BACKGROUND

Established in 1934, and subsequently made an independent agency of the United States (U.S.) through congressional charter in 1945, EXIM is a wholly owned government corporation whose fundamental mission is to aid in the financing and facilitating the export of U.S. goods and services, and to contribute to the employment of U.S. workers. EXIM contributes to U.S. economic growth by helping to support and sustain thousands of jobs in exporting businesses and their supply chains across the U.S. EXIM's operations and programs are controlled by its charter, which is reauthorized on a periodic basis. EXIM's charter has been reauthorized through December 31, 2026.³

EXIM's charter requires “that the Bank in the exercise of its functions should supplement and encourage, and not compete with, private capital; that the Bank, in determining whether to provide support for a transaction under the loan, guarantee, or insurance program, or any combination thereof, shall consider the need to involve private capital in support of United States exports” 12 U.S.C. § 635(b)(1)(B).

In extending financial support for a transaction, the charter requires EXIM to “neutralize the effect of such foreign credit on international sales competition” and “supplement and encourage” private capital as opposed to competing with it. 12 U.S.C. § 635(b)(1)(B). According to EXIM's Policy Handbook, the policy of the agency is to support transactions that “foster additional exports.” EXIM attempts to fulfill the statutory mandate by focusing on financing transactions where the probability or likelihood of a transaction involving U.S. exports is unlikely to proceed without EXIM support (i.e., “additionality”).

EXIM deems additionality to exist when EXIM determines support for export transactions is necessary because of:

- A. Competition from foreign officially supported export credit for a competing foreign good or service, or
- B. The existence of financing gaps within the private sector caused by regulatory or structural factors.

Office of Board Authorized Finance

EXIM's Office of Board Authorized Finance (OBAF) is primarily responsible for the underwriting of medium- and long-term transactions, which includes presentation of transactions to EXIM's Board of Directors (Board), disbursements for approved transactions, and post-closing monitoring and management of transactions.

The Board approves all transactions in which the financed portion, excluding EXIM's exposure fee, is greater than \$25 million. Additionally, certain transactions require Board approval regardless of financing amounts (e.g., Dual Use, Tied Aid, environmental and social considerations). Conversely, transactions in which the financed portion is less than

³ Further Consolidated Appropriations Act 2020 (Pub. L. No. 116-94), Div. I, tit. VI, §§ 401-409 (Export-Import Bank Extension), 133 Stat. 2534, 3021 (Dec. 20, 2019); A copy can be located at <https://www.congress.gov/116/plaws/publ94/PLAW-116publ94.pdf>. EXIM's charter is set forth in 12 U.S.C. ch. 6A (12 U.S.C. §§ 635 *et seq.*).

\$25 million (excluding EXIM’s exposure fee) are generally approved under Individual Delegated Authority (IDA).

AUDIT RESULTS

We found that EXIM’s approach for determining additionality during the period of review lacks assurance that additionality determinations were reasonable and justified. Although EXIM made progress in revising its additionality policies and procedures based on prior OIG recommendations, as well as suggestions offered by interagency partners, the agency’s approach for determining additionality needs improvement. Specifically, EXIM should strengthen internal controls over the additionality review process, as the current process does not provide sufficient support or documentation for additionality determinations and it lacks formal oversight over the supporting evidence loan officers use to make determinations. For example, although all the credit files reviewed contained additionality justifications, not all contained source documents⁴ to support applicants’ conclusory statements for EXIM financing, memorandums to document verbal confirmations of the additionality rationale, and/or the required additionality checklists. Insufficient documentation does not necessarily mean that the additionality determinations were incorrect; however, it may raise questions about the appropriateness of the determinations, as well as the overall effectiveness of the agency’s additionality policy and procedures. Further, we found that EXIM lacks a comprehensive process to track applications denied or withdrawn because they did not meet the additionality requirements.

Finding 1: EXIM’s Approach for Determining Additionality Lacks Assurance that Additionality Determinations Were Reasonable and Justified

EXIM’s approach for determining additionality needs improvement. We found that the additionality determination process does not sufficiently support and document additionality determinations and it lacks formal oversight over the supporting evidence loan officers used to make determinations. Specifically, loan officers did not always obtain source documents to support applicants’ reasons for needing EXIM support, verbal confirmations of additionality rationale(s) were not always properly documented with a loan officer memorandum, and the required additionality checklist was not always maintained in the credit file. EXIM’s additionality policy and procedures as written were drafted broadly, which contributed to inconsistent interpretations and implementation of the process. As a result, it is difficult for EXIM to provide assurance that additionality determinations are reasonable and justified.

⁴ Source documents include any evidence/documentation used to corroborate the existence of foreign ECA competition or lack of private capital aside from an applicant’s generalized statement that it needs EXIM financing support (e.g., rejected financing applications from private capital sources, written confirmations from foreign sources, requests for proposals, etc.). Source documents can be in electronic or hard copy form.

Additionality Determination Not Sufficiently Supported or Documented and Lacks Formal Oversight

EXIM’s guidance for determining additionality is outlined in EXIM’s Additionality Guidelines and Checklist (guidelines).⁵ These guidelines state that written evidence,⁶ while not required, is preferable to oral evidence. The guidelines also state that “oral evidence is acceptable only if documented by the loan officer in a memorandum identifying the source, context, and timing of oral confirmation.” (emphasis in original).

According to EXIM’s policy and procedures, the additionality determination process begins when an application is submitted. The applicant must select the reason for requesting EXIM support. The agency’s loan officers then use the information provided in the application as a starting point to conduct a case-by-case additionality analysis with the goal of correctly identifying and justifying the reason for EXIM support. Once the loan officer obtains written evidence or verbal confirmation of additionality rationale(s), it is the loan officer’s responsibility to document the justification in the Board or Decision Memo. This memo is used by the Board or the Approving Official to evaluate and approve (or reject) the transaction.

To determine if EXIM followed its additionality determination process, we reviewed 14 medium- and long-term transactions (8 guarantees, 5 insurance, and 1 loan) that were authorized during fiscal years 2020 and 2021, totaling approximately \$2.39 billion. Through our analysis, we determined that EXIM was not consistently following its additionality policy and procedures. Specifically:

- For 79 percent of the sampled transactions (11 out of 14), the loan officers did not obtain source documents to support conclusory statements provided by the exporter/applicant/buyer regarding their need for EXIM support.
- The additionality guidelines provide examples of written source documents (potential evidence) that loan officers may use to support additionality justification. However, some loan officers claimed it was not the intent of the policy to obtain source documents, and that the statements provided by the exporter/applicant/buyer were sufficient, so they purposely did not include supporting information in the credit file. Specifically:
 - 67 percent of long-term sampled transactions (6 out of 9) lacked source documents.
 - 100 percent of medium-term sample transactions (5 out of 5) lacked source documents.
- For 79 percent of the sampled transactions (11 out of 14), the loan officers did not include a memorandum identifying source, context, and timing of verbal

⁵ See “Additionality Guidelines and Checklist (as of May 21, 2020)” at <https://img.exim.gov/s3fs-public/policy/20200611-additionality-checklist.pdf>.

⁶ Although not defined by EXIM, “evidence” is typically defined as something that tends to prove or disprove the existence of an alleged fact: here, whether to meet competition from foreign, officially sponsored, ECAs, structural or risk constraints, and/or other factors.

confirmation of additionality rationale(s) in the credit file. The verbiage used in the guidelines indicates that the memorandum confirming the verbal evidence and prepared by the loan officer should be a separate document from the Board Memo or Decision Memo, but this is not explicitly stated. We found documentation was inconsistent: where evidence was provided verbally, some of the credit files had a separate loan officer memorandum, while others did not. Specifically:

- 67 percent of long-term sampled transactions (6 out of 9) lacked a loan officer memorandum identifying source, context, and timing of verbal confirmations.
- 100 percent of medium-term sample transactions (5 out of 5) lacked a loan officer memorandum identifying source, context, and timing of verbal confirmations.
- Twenty-Nine percent of the sampled transactions (4 out of 14) lacked a checklist in the credit file, as required by OBAF's Additionality Policy. EXIM policy states that documentation supporting additionality determinations for all OBAF transactions (including Board level and IDA transactions), including the checklist, must be included in the transaction credit file. Checklists were included in all analyzed Board level transactions (i.e., guarantees and loans) because the checklists were included in the Board Memos as an appendix. Conversely, the checklist was not included in the Decision Memos for IDA level transactions (i.e., insurance). Of the five IDA level transactions reviewed, only one transaction had a checklist in the credit file. Specifically:
 - 100 percent of long-term sampled transactions (9 out of 9) did have an additionality checklist.
 - 80 percent of medium-term sample transactions (4 out of 5) lacked an additionality checklist.

For all sampled transactions, we found that there was a lack of formal oversight over the loan officer's additionality determinations. The process followed consisted of the loan officer making the determination, and that determination stood. EXIM personnel explained that transactions were also subject to various other reviews conducted by OPAIR, OGC, and as part of the Transaction Review Committee (TRC) process. Specifically, transactions with an authorization amount of:

- \$1 million to \$10 million were reviewed and concurred by OBAF's Senior Loan Officer (SLO) or Managing Director (MD) for originations. Final approval was by OBAF's Vice President (VP) or Deputy Vice President for originations.
- \$10 million to \$25 million were reviewed and concurred by the SLO or MD, then submitted to a VP or DVP (DVP) for approval. Final approval was by the Senior Vice Presidents for OBAF and the Office of Small Business (OSB) in consultation with the Chief Banking Officer (CBO).
- Over \$25 million were presented to the TRC. Once a transaction clears the TRC it is recommended for inclusion on the agenda of EXIM's Board of Directors for approval.

However, EXIM's process did not require a supervisor or external party to review the evidence/documentation specifically supporting the additionality determination. There was not a process to validate that the determination was correct based on the evidence provided, or that the determination was properly supported and documented.

Inconsistent Interpretation and Implementation of the Review Process

EXIM's additionality policy and procedures were broad and somewhat vague, which contributed to inconsistent interpretations and implementation of the additionality review process by the loan officers originating the transactions reviewed. During our audit, EXIM staff stated that "EXIM did not want to put unnecessary burden on applicants by making them provide various documents, since EXIM is the only export credit agency (ECA) with additionality requirements that are so stringent." Also, the checklist criteria permit documented verbal evidence as an acceptable form of potential evidence. Although providing this option provides loan officers with an easier means to achieve the documentation requirement, it could result in a weakening of internal control. Specifically, without underlying documentation to support the oral confirmation, there was no way to validate whether the information provided was factual. To illustrate, the credit file for an EXIM approved a transaction valued at over \$500 million contained the Board Memo with the required additionality justification, a completed additionality checklist, and email correspondence from the applicant as to the need of EXIM financing support. However, the credit file did not contain sufficient evidence such as a separate memo from the loan officer to support the information provided by the applicant. Further, some loan officers, in separate divisions, stated they were not aware of the requirement to complete the additionality checklist until approximately March 2022.

The absence of sufficient support and documentation, as well as a formal oversight process, makes it difficult for EXIM to assure that its additionality determinations were reasonable and justified. Moreover, we could not determine based on the available documentary evidence in the credit files reviewed whether EXIM's approach for determining additionality achieved the expected result of ensuring that a transaction would not go forward without EXIM's support. Therefore, our findings raise concerns about the overall effectiveness of EXIM's approach for determining additionality.

Other Matter: Lack of a Comprehensive Application Tracking Process

During our audit, we found that EXIM lacked a comprehensive process to track applications denied or withdrawn because they did not meet the additionality requirements. Although EXIM does have a process in place to track applications that were withdrawn or denied, a specific code that identifies when the withdrawal or denial was due to additionality did not currently exist. Therefore, we were unable to determine the number of transactions approved versus those withdrawn or denied based on additionality.

EXIM personnel explained that the additionality requirements can deter applicants from applying for EXIM support, and/or that applicants are advised that the case for additionality was not strong enough to justify the need prior to applying, so there would be no rejected applications in those circumstances.

Nonetheless, without a comprehensive tracking mechanism which includes withdrawn or denied applications based on additionality, external stakeholders are unable to determine whether EXIM is meeting its charter obligations. This could contribute to the perception

that EXIM is allowing all applicants to proceed forward and always determines additionality is met.

RECOMMENDATIONS

To improve the effectiveness of EXIM's Additionality Determination process, we recommend that EXIM:

1. Update the additionality guidelines and checklist to:
 - a. Explicitly state the minimum documentation requirements for establishing additionality whether that be source documentation or contemporaneous memos with the required elements of source, timing, and context; and
 - b. Establish a reason code for additionality for applications denied or withdrawn due to additionality requirements. EXIM should include this information in EXIM's Annual Additionality Report.⁷

Management Comments:

Management agree dwith this recommendation. EXIM will propose to the Board an update of the additionality guidelines and checklist to clearly state that documents or contemporaneous memorialization of discussions (including source(s), timing, and context) that establish additionality are included in loan documentation files. EXIM has also already submitted a change request requesting a code for additionality be added to EXIM's processing systems. These updates will be made in conjunction with the third-party consultant review of the additionality determination process.

OIG Response:

Management's proposed actions are responsive to the recommendation. Therefore, the recommendation is considered resolved and will be closed upon completion and verification of the proposed actions.

2. Establish a formal policy assigning independent oversight responsibility for additionality determinations. Ensure that all transactions and supporting evidence are reviewed for consistent application of additionality policies and procedures.

Management Comments:

Management agreed with this recommendation. EXIM is working to establish an independent group within the Office of General Counsel that will review additionality determinations to ensure that they fulfill all statutory and policy requirements.

⁷ In May 2020, EXIM's Board adopted a resolution requiring the agency to publish an annual report on additionally each calendar year. See <https://img.exim.gov/s3fs-public/reports/fy2020-annual-additionality-report.pdf>.

OIG Response:

Management’s proposed actions are responsive to the recommendation. Therefore, the recommendation is considered resolved and will be closed upon completion and verification of the proposed actions.

3. Conduct refresher training or briefing with loan officers on revised additionality procedures and requirements.

Management Comments:

Management agreed with this recommendation. EXIM provided training after the Board approved the additionality requirements and policy as well as in the summer of 2022. EXIM will have continuous refresher training for the additionality requirements.

OIG Response:

Management’s proposed actions are responsive to the recommendation. Therefore, the recommendation is considered resolved and will be closed upon completion and verification of the proposed actions.

CONCLUSION

We found that EXIM's internal control over the additionality determination process needs improvement to ensure determinations are reasonable and justified. The additionality determination process did not provide sufficient support or documentation for additionality determinations reviewed. Further, the process lacks formal oversight over loan officer additionality determinations. While the information obtained may be sufficient for internal users familiar with the process, it does not provide a sufficient audit trail for external parties. To assist with strengthening internal control over the additionality determination process, we made three recommendations that address the areas identified for improvement.

APPENDICES

Appendix A: Objective, Scope, and Methodology

The objective of this audit was to assess EXIM’s approach for determining the additionality of transactions in accordance with its charter, policy, and procedures. To accomplish the audit objective, we employed a combination of qualitative and quantitative techniques, specifically:

1. Conducted interviews with EXIM staff including (but not limited to): Office of Board Authorized Finance, Office of Policy Analysis and International Relations, Office of Global Infrastructure, Office of Export Credit Insurance, Office of Trade Credit Insurance, Office of Credit Policy, OBAF Industrial Group, and the Office of the Chief Financial Officer.
2. Reviewed EXIM’s plans, policies, and procedures related to additionality for adherence to prescribed internal criteria. These include:
 - EXIM Additionality Guidelines and Checklist – May 21, 2020
 - EXIM Policy Handbook Excerpt, “Additionality” – June 2020
 - OBAF Additionality Policy – July 2021
3. Reviewed a prior EXIM OIG report entitled, Evaluation of EXIM’s Additionality Policy and Procedures (OIG-EV-19-01, November 27, 2018).
4. Used the non-representative selection method to select a sample of 21 medium- and long-term transactions from an audit universe of 196 transactions. The transactions were authorized during fiscal years 2020 and 2021. Because EXIM updated the additionality documentation requirements effective August 1, 2020, we excluded seven transactions that were authorized prior to that date from testing. Therefore, 14 transactions with an approximate total authorization amount of \$2.39 billion were included in our analysis (8 guarantees, 5 insurance, and 1 loan).
5. Reviewed the associated credit files for the sampled transactions, and verified they were issued in accordance with EXIM policies and procedures. See Appendix B for a list of transactions reviewed.
6. Reviewed and documented internal controls associated with EXIM’s additionality determination process and to determine if they were in place and effective.

In planning and performing the audit, we obtained an understanding of internal controls to the extent necessary to satisfy the audit objective. We assessed the internal control components and identified the following internal control components and underlying principles significant to the audit objective:⁸

⁸ The federal internal control standards are organized into 5 components (control environment, risk assessment, control activities, information and communication, and monitoring) and 17 related principles (requirements).

Table 1: Internal Control Components	
Components	Underlying Principles
Control Environment	Organizational structure has clearly defined roles and responsibilities.
Risk Assessment	Management has conducted internal and external risk assessments. Can include studies or follow ups on implementation recommendations.
Control Activities	Relevant information systems have business rules in place to ensure the transactions are properly authorized, process accurately, and that the data is valid and complete.
Information & Communication	Relevant, reliable, and timely exchange of information between program office personnel.
Monitoring	Effective monitoring internal control occurs during the normal course of business. Includes periodic data reviews/reconciliations/data comparison.

We performed our audit work from January 2022 through September 2022 at EXIM headquarters in Washington, D.C. The audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix B: Fourteen Transactions Reviewed

Deal Number	Fiscal Year	Type	Term	Country	Amount Authorized
AP089343XX	2020	Guarantee	Long	Argentina	\$ 82,995,000
AP089365XX	2020	Guarantee	Long	Mexico	\$ 335,000,000
AP089366XX	2020	Guarantee	Long	Mexico	\$ 65,000,000
AP700317XX	2020	Guarantee	Long	Senegal	\$ 67,616,124
AP089340XX	2021	Loan	Long	Argentina	\$ 69,803,867
AP089405XX	2021	Guarantee	Long	Australia	\$ 82,507,894
AP089408XX	2021	Guarantee	Long	Canada	\$ 500,038,476
AP089432XA & XX	2021	Guarantee	Long	Turkey	\$ 832,519,155
724709	2021	Insurance	Medium	Chile	\$ 7,913,583
725798	2021	Insurance	Medium	India	\$ 5,292,412
725800	2021	Insurance	Medium	India	\$ 9,767,625
731243	2021	Insurance	Medium	Brazil	\$ 2,884,674
733411	2021	Insurance	Medium	Uruguay	\$ 1,754,400
AP089390XX	2021	Guarantee	Long	Panama	\$ <u>324,489,103</u>
				Total	\$ <u>2,387,582,314</u>

Source: DATA.GOV, April 5, 2022

Appendix C: Management Comments



Helping American Businesses Win the Future

DATE: September 27, 2022

TO: The Honorable Parisa Salehi, Inspector General, Office of Inspector General

THROUGH: Mary Jean Buhler, Senior Vice President, and Chief Financial Officer

FROM: Adam Martinez, Senior Vice President, and Chief Management Officer **ADAM MARTINEZ**

SUBJECT: Audit of EXIM’s Approach for Determining Additionality (OIG-AR-22-07)

Digitally signed by
ADAM MARTINEZ
Date: 2022.09.27
11:47:01 -0400

Dear Ms. Salehi,

Thank you for providing the Export-Import Bank of the United States (“EXIM” or “EXIM Bank”) management with the Office of Inspector General’s (“OIG”) *Audit of EXIM’s Approach for Determining Additionality*, OIG-AR-22-07, dated September 22, 2022 (the “Report”). Management continues to support the OIG’s work which complements EXIM’s efforts to continually improve its processes.

EXIM appreciates that OIG recognized that EXIM has “made progress in revising its additionality policies and procedures based on prior OIG recommendations, as well as suggestions offered by interagency partners.” EXIM is pleased that OIG found that “all the credit files reviewed contained additionality justifications” and “Checklists were included in all analyzed Board level transactions (i.e., guarantees and loans)” which included “100 percent of long-term sampled transactions (9 out of 9).”

Currently, EXIM’s additionality justifications are reviewed and considered in accordance with the Board of Directors’ delegation of authority and management oversight. For example, additionality justifications for Board-level transactions are drafted by the loan officer and reviewed and considered by an inter-divisional committee on two occasions. A designated lawyer from OGC is an integral part of this process and is required to sign off on additionality justifications before a transaction can go to the Board. The Board is then provided with a written additionality justification as part of the Board memo that accompanies each transaction. Board Members routinely discuss with transaction staff the circumstances by which a transaction is consistent with the statutory requirement that the agency’s financing “supplement and encourage, and not compete with, private capital.” However, in light of the findings in this report, EXIM recognizes that there are additional areas for improvement.

Going forward, EXIM has engaged a third-party compliance consultant to review and make recommendations on EXIM's overall compliance program, including additionality compliance. The consultant will begin their review in in early October of 2022.

Finally, EXIM notes that the OIG provided draft reports for multiple engagements, including this one, to the agency between September 13-15, 2022. EXIM takes OIG reports and findings very seriously and worked diligently to provide technical feedback and input on an expedited basis even as staff are also engaged in significant work related to the end of the fiscal year. Despite these challenges, EXIM has sought to provide timely and complete responses to all management recommendations in order to allow the OIG to issue reports by September 30, 2022.

The OIG has made three recommendations in this report to improve the effectiveness of EXIM's Additionality Determination process:

Recommendation 1: Update the additionality guidelines and checklist to a) explicitly state the minimum documentation requirements for establishing additionality, whether that be source documentation or contemporaneous memos with the required element of source, timing, and context; and b) establish a reason code for additionality for applications that have been denied or withdrawn due to additionality requirements.

Management response: EXIM concurs with this recommendation.

With respect to item 1a, EXIM will propose to the Board an update of the additionality guidelines and checklist to clearly state that documents or contemporaneous memorialization of discussions (including source(s), timing, and context) that establish additionality are included in loan documentation files. The proposal will also clarify in the guidelines and checklist that those items should be placed in loan files as soon as possible after receipt or completion of the contemporaneous memorialization of additionality discussions. These updates will be made in conjunction with the third-party consultant review of the additionality determination process.

With respect to item 1b, EXIM agrees with the recommendation and has already submitted a change request requesting this code be added to EXIM's processing systems to EXIM's Information and Management Technology team.

Recommendation 2: Establish a formal policy assigning independent oversight responsibility for additionality determinations to help ensure that all transactions are reviewed for consistent application of additionality policies and procedures

Management response:

EXIM agrees with the recommendation that there should be independent, internal review of additionality determinations to ensure appropriate documentation related to additionality justifications is included in transaction files. To facilitate this, EXIM is working to establish an independent group within the Office of General Counsel that will review additionality determinations to ensure that they fulfill all statutory and policy requirements.

Recommendation 3: Conduct refresher training or briefing with loan officers on revised additionality procedures and requirements.

Management response:

EXIM agrees with this recommendation. EXIM had provided training after the Board approved the additionality requirements and policy as well as in the summer of 2022. EXIM will have continuous refresher training for the additionality requirements.

CC:

Reta Jo Lewis, Chair and President
Rebecca Webb, Senior Vice President and Chief of Staff
Hazeen Ashby, Senior Vice President, Deputy Chief of Staff and White House Liaison
Christopher Day, Senior Vice President, Office of Congressional and Intergovernmental Affairs
James Cruse, Senior Vice President, Office of Policy Analysis and International Relations
Kenneth Tinsley, Senior Vice President and Chief Risk Officer
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Lark Grier-Hapli, Deputy General Counsel
Adam Martinez, Senior Vice President and Chief Management Officer
Mary Buhler, Senior Vice President and Chief Financial Officer
Inci Tonguch-Murray, Senior Vice President, and Deputy Chief Financial Officer
Officer

Appendix D: Distribution List

Reta Joe Lewis, Esq., President and Chair of the EXIM Board
Rebecca Webb, Chief of Staff
Hazeen Ashby, Deputy Chief of Staff and Whitehouse Liaison
Adam Martinez, Senior Vice President, and Chief Management Officer
Kenneth Tinsley, Senior Vice President, and Chief Risk Officer
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Mary Jean Buhler, Chief Financial Officer
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